

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE APRIL 21, 2010 PENSION BOARD MEETING

1. Call to Order

Chairman Mickey Maier called the meeting to order at 8:30 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present:

Linda Bedford (Vice Chair)
Donald Cohen
Keith Garland
Mickey Maier (Chairman)
Jeffrey Mawicke
Marilyn Mayr
Dr. Sarah Peck
Guy Stuller

Members Excused:

David Sikorski

Others Present:

David Arena, Director of Employee Benefits, Department of Administrative Services
Gerald Schroeder, ERS Manager
Dale Yerkes, Assistant Fiscal Officer
Monique Taylor, ERS Clerical Specialist
Sushil Pillai, Former Milwaukee County Program Manager
Bess Frank, Ad Hoc Oversight Committee
Steven Huff, Reinhart Boerner Van Deuren s.c.
John Busch, Michael Best & Friedrich LLP
Brett Christenson, Marquette Associates, Inc.
Ken Loeffel, Retiree
Steve Schultze, Reporter, *Milwaukee Journal Sentinel*

3. Chairman's Report

The Chairman reflected on the benefits of reviewing reports carefully and questioning conclusions.

4. Minutes - March 17, 2010 Pension Board Meeting

The Pension Board reviewed the minutes of the March 17, 2010 Pension Board meeting.

The Pension Board unanimously approved the minutes of the March 17, 2010 Pension Board meeting. Motion by Mr. Cohen, seconded by Mr. Stuller.

5. Reports of Benefits Director, ERS Manager and Assistant Fiscal Officer

(a) Retirements Granted, March 2010

Mr. Schroeder presented the Retirements Granted Report for March 2010. He reported that 27 retirements were approved in March with a total monthly payment amount of \$30,319. He noted that 13 retirees elected backDROPs, in amounts totaling \$1,338,732.

(b) ERS Monthly Activities Report, March 2010

Mr. Schroeder presented the Monthly Activities Report for March 2010. He indicated that ERS had 7,313 retirees at the end of March 2010. He stated that ERS paid out just over \$13 million in benefits for March 2010.

Mr. Schroeder commented that ERS had processed 80 retirements in the previous 30 days. This number represented a 400% increase from the average number of monthly retirements.

Mr. Schroeder reported that ERS conducted an exit survey of retirees who had recently retired in the past three months to assess their interactions with ERS employees. Seventy-eight percent of retirees returned the survey. Of the surveys returned, 100% rated the overall experience as "Good" when the survey choices were Good, Average or Poor. Only six ratings out of a total of 351 ratings over various categories ranked the experience as "Average." These were confined to the areas of forms explanations and length of meetings. Mr. Schroeder indicated that ERS will continue to conduct retiree exit surveys quarterly.

Mr. Schroeder noted that the ERS brochure series will soon be completed. The series includes 15 brochures. In response to a question from the Chairman, Mr. Schroeder indicated the brochures are also available online.

In response to a question from Ms. Mayr, Mr. Schroeder clarified that the brochure series differs from a benefits booklet. ERS has completed approximately 80% of a procedure manual to assist ERS staff in operating the plan. He indicated that ERS staff has also just started drafting a benefits booklet. Corporation Counsel will review the benefits booklet. Mr. Schroeder estimated the project will likely take six months to a year to complete.

Mr. Schroeder distributed a copy of the latest communicator that ERS sent out to retirees.

Mr. Schroeder stated that ERS will hold the first of its two semi-annual ERS information sessions on April 28, 2010 at the Washington Park Senior Center. The second information session will occur in October 2010.

Mr. Arena commended Mr. Schroeder and his staff, and stated that Mr. Schroeder does not receive sufficient credit for his performance. Mr. Arena noted that Mr. Schroeder spent the first 18 months as ERS manager improving ERS operations. Mr. Schroeder is now working on projects to enhance ERS, such as booklets and communications materials. Mr. Arena noted that the retiree exit survey results demonstrate the positive impact of Mr. Schroeder's efforts on ERS's operations. Dr. Peck and Ms. Mayr agreed with Mr. Arena's comments. The Chairman also expressed his appreciation for Mr. Schroeder's service to ERS.

(c) Waivers

Mr. Schroeder reported that ERS received four waivers from Jonathan Myhre, Public Advisor, County Executive's Office and one waiver from Scott Walker, the County Executive.

The Pension Board voted 7-1, with Mr. Stuller dissenting, to accept the waivers. Motion by Mr. Cohen, seconded by Ms. Bedford.

Ms. Mayr noted that in prior years the Board received an updated list of all waivers. She requested a list. Mr. Schroeder indicated ERS could compile an updated list.

(d) Assistant Fiscal Officer/Cash Flow Report

Mr. Yerkes presented ERS's cash flow report. He indicated that ERS does not currently require cash to be liquidated from other investments because ERS previously transferred funds into the general account. Mr. Yerkes also noted that because ERS was the last owner of the STIF fund, ERS received approximately \$256,000 as the sole recipient of that fund's portion of an Enron class action settlement.

Mr. Yerkes provided an update regarding the status of the annual audit, noting that ERS staff members are assisting with what had been the past Fiscal Officer's duties.

Mr. Schroeder stated some of the difficulty with this year's audit is because this year represents the first audit performed with the V-3 system in place. This year will serve as a transition year for extracting data from the old Genesys system and matching the Genesys format with the new Vitech format. Mr. Stuller inquired whether ERS can rely on the V-3 system data. Mr. Schroeder responded that ERS spent 18 months cleansing the data in the Genesys system before downloading it to the V-3 system.

Mr. Schroeder stated that the data is more accurate now than it has been in the past 16 years. In response to a follow-up question from Mr. Stuller, Mr. Schroeder suggested that employees check their personal retirement information and notify the Retirement Office if data is not accurate.

In response to a question from Mr. Arena, Mr. Schroeder stated that ERS will produce a pension statement to replace the benefit statement previously provided by Ceridian. Mr. Schroeder indicated that ERS will be sending pension statements out in May 2010 and that employees will receive a hard copy annually. Mr. Schroeder added that ERS used the V-3 system to issue IRS Form 1099s this year, and the system produced accurate reports.

In response to a question from Mr. Stuller, Mr. Schroeder noted that ERS had offered an initial use of V-3 training, and 600 retirees attended. ERS will schedule four sessions for active employees at three locations around Milwaukee County.

Mr. Schroeder then discussed a request for additional V-3 funds and distributed a related handout detailing the costs. He reminded the Board that he had previously indicated that recent Ordinance changes and mandates would result in changes to the V-3 system. He noted that he previously estimated the cost of these changes at well over \$100,000.

Mr. Arena explained that the County Board of Supervisors made significant changes to the Ordinances in an effort to reduce pension costs. The Retirement Office had not planned for these Ordinance amendments, and they will require substantial changes to the V-3 system. In addition, some corrections to prior programming are required. Mr. Arena then stated that Vitech had submitted to ERS a total initial estimate of over \$935,000 for these and other changes. Mr. Arena asked Sushil Pillai, the V-3 Program Manager when the program was being implemented, to review the various components of the estimate from Vitech to determine how costs could be reduced. He also asked Mr. Pillai to help ERS anticipate and suggest possible future changes.

Mr. Pillai stated that any ERS Ordinance change results in complications within the V-3 system. For example, the change in the multiplier from 2.0 to 1.6 requires a complete reworking of the basic pension application. Further, ERS includes 18 pension types. Accordingly, any change must be tested for all 18 pension types. Mr. Pillai estimated the costs of testing alone at \$75,000 to \$100,000.

Mr. Pillai noted that Mr. Schroeder advocates County ownership of the V-3 system. As part of that new strategy, ERS would use factor tables and a spreadsheet approach to address parameters such as the percentage value of multipliers, retirement age, union groups, enrollment dates, etc. Mr. Pillai indicated that ERS management believes that the suggested approach provides ERS more return for its investment in the long term. These changes are part of the total costs.

Ms. Mayr inquired why the current changes were not anticipated when the V-3 system was implemented. Mr. Pillai provided two reasons. First, ERS could not anticipate all potential changes because of the high costs involved in accounting for all possible changes. Second, ERS needed to maintain a balance between automation and manual control to retain some level of flexibility. Ms. Bedford noted that the Pension Board had discussed with Vitech during contract negotiations whether the system could be modified in response to future changes.

The Chairman noted that future changes not currently contemplated could still be made to the Ordinances. He added that the County Board was not actively pursuing changes in benefit formulas two to three years ago when the V-3 system was designed.

Mr. Pillai stated that ERS asked Vitech to use a bundled cost approach in providing its estimate. The original projected cost of \$935,937 was reduced to \$578,358 by using a bundled cost approach. The \$578,358

figure includes costs related to Ordinance amendments, employee contract changes and technical upgrades. In response to a question from Mr. Stuller, Mr. Arena indicated that he does not believe that the County Board has considered programming costs when making benefit changes.

Programming costs are not listed as part of the County's direct cost and are not mentioned in the fiscal note. Further, the County would probably not have knowledge of the programming costs. Mr. Arena added that ERS is now seeing the full and direct Vitech costs to programming cost, some of which the County's IMSD previously charged back to ERS. In response to a question from Mr. Stuller, Mr. Pillai confirmed that IMSD is not involved with the V-3 system changes.

Mr. Schroeder stated that part of the long term V-3 system strategy is for ERS to run Vitech substantively and procedurally with its own technical and IT staff. He added that ERS probably would have spent \$15 million, rather than \$10 million, for a system that could anticipate the universe of potential changes. He indicated that ERS needed a system with core functionality to align to the Ordinances to allow enforcement of the Ordinances.

Mr. Arena indicated that he plans to negotiate with Vitech to reduce the \$578,358 cost to the maximum extent possible. Mr. Arena requested authorization to proceed with implementing the V-3 changes at a cost of no greater than \$578,358.

The Pension Board unanimously agreed to approve a budget for making changes to the V-3 system at a cost no greater than \$578,358. Motion by Mr. Cohen, seconded by Dr. Peck.

Mr. Cohen stated that the Pension Board should notify the County Board of the cost of the changes to the V-3 system. The Chairman stated that he has asked Mr. Arena to contact the County Executive and County Board to inform them of the cost of the changes.

The Pension Board unanimously approved directing ERS staff to notify the County Board and County Executive of the cost to ERS of programming the V-3 system changes. Motion by Mr. Cohen, seconded by Mr. Stuller.

6. Investments

(a) Report of Marquette Associates, Inc.

Brett Christenson of Marquette Associates, Inc. first reported on general economic conditions. He stated that the United States experienced positive GDP growth in the last two quarters of 2009. Corporations are maintaining cash on their balance sheets and posting healthy earnings reports in the first quarter of 2010. In addition, more consumers are spending, but the savings rate is higher than historical rates and people still maintain a high level of debt.

Mr. Christenson stated that the price of crude oil is starting to increase again, which is an indicator of inflation. ERS has allocated investments to the real assets of infrastructure and real estate, which helps as an inflation hedge.

Mr. Christenson then distributed a report containing ERS's investment returns for March 2010. He indicated that he expects to present a quarterly report at the May 2010 Pension Board meeting.

Mr. Christenson next commented on the U.S. equity markets. The first quarter of 2010 and March 2010, in particular, saw strong returns in the U.S. stock market across all indices. For the quarter, the S&P 500 was up 5.4%, the Russell MidCap index was up 8.7% and the Russell 2000 index for small cap stocks was up 8.9%. On a one year basis, the market experienced a sharp rebound and many indices were up over 50%.

Mr. Christenson next discussed the returns of the international equity markets. Overall, the international equity markets saw a strong one year rebound. Further, for March 2010, the broad international equity indices were positive, despite some problems in the first quarter of 2010 due to concerns over economies like Greece.

Mr. Christenson then reported on the commercial real estate market. The NFI-ODCE benchmark, a broad measure of the real estate market, had a positive first quarter return of 0.8%. In general, the core commercial real estate market has seen depreciation and stabilization, and Marquette recommends planning real estate investments at this time.

Mr. Christenson discussed the March 2010 flash report. Total ERS assets as of March 31, 2010 were just over \$1.8 billion. Total ERS assets are generally in line with target allocations, but the portfolio is underweight both in real estate and in infrastructure. In addition, fixed income is overweight with a target allocation of 32% and a current allocation of 42.5%. Marquette is not recommending any rebalancing at this time.

In response to a question from the Chairman, Mr. Christenson indicated that Adams Street will make capital calls this year, and Marquette anticipates recommending that ERS consider investing in the 2011 Adams Street fund.

Mr. Christenson reported that the ERS return in March 2010 was strong at 3.5% and the return for the first quarter of 2010 was 3.1%. The ERS fixed income composite was up 2% for the quarter versus 1.8% for the benchmark. Mr. Christenson noted that the ERS U.S. equity composite was up 6.9% for the quarter versus 6% for the benchmark, and the international equity composite was up 1.5% versus 1.7% for the international benchmark. At the next meeting, Marquette expects to provide peer comparisons in the quarterly report.

Mr. Christenson briefly commented on the manager returns. AQR saw a quarterly return of 11.2%, which was a rebound from its recent struggles. GMO, another manager that was the subject of concerns, was up 1.2% for the quarter, slightly beating the benchmark of 0.9%.

Mr. Christenson also noted that Loomis is in a liquidation phase. Mr. Christenson stated that most of Loomis' yield has been capturing what was lost in the down market.

(b) Investment Committee Report

The Chairman reported on the April 5, 2010 Investment Committee meeting.

First, the Investment Committee discussed commission recapture. Marquette previously reviewed the existing ERS commission recapture program, which had a goal of a 50% commission recapture rate. Marquette informed all managers of the ERS guidelines regarding commission recapture. This action increased the amount of commission recapture dollars to approximately \$38,000, but this dollar amount represented only 10% of the trades. The Chairman noted that the Investment Committee

recommends the Board adopt a flexible guideline for commission recapture, as stated on page 26 of the Statement of Investment Policy.

Second, the Investment Committee discussed adoption of a new Statement of Investment Policy. Mr. Grady reviewed the draft Statement of Investment Policy, and the Investment Committee recommended that the Board adopt the policy.

Third, the Investment Committee considered the impact if ERS transferred custodial services away from BNYM. Marquette informed the Investment Committee that BNYM does not bundle its custodial fee and index fund management fees, and the custodial arrangement is not contingent on maintaining index funds with BNYM. Mr. Yerkes reported at the meeting on the potential impact on ERS operations. Mr. Yerkes stated generally that BNYM allows ERS more flexibility and efficiency in day-to-day operations.

Finally, the Investment Committee discussed a potential real estate RFP. The Investment Committee recommends that the Board issue a real estate RFP. Mr. Christenson stated that he believes ERS likely would be able to invite the top 20 managers in core real estate.

In response to a question from Ms. Mayr regarding commission recapture and soft dollar compensation, the Chairman stated that ERS discourages soft dollar arrangements and that soft dollar fees must be for necessary services like research. Dr. Peck noted Fiduciary Management as an example of a manager using soft dollar arrangements for reasons beneficial to ERS by cutting the cost of its research. Mr. Christenson noted that if an ERS manager uses soft dollars, those fees usually equal less than 30% of the total commissions.

Mr. Christenson stated it would not be beneficial for ERS to eliminate soft dollar fees because ERS would need to remove itself from managers' block trades made on behalf of several clients to enhance efficiency. Dr. Peck echoed the thought that it would be more expensive for ERS to step out of block trades. She indicated that soft dollars are tracked and monitored to some extent in the industry.

The Pension Board voted 7-1, with Ms. Mayr dissenting, to adopt ERS's Statement of Investment Policy dated April 21, 2010. Motion by Ms. Bedford, seconded by Dr. Peck.

The Pension Board unanimously approved the issuance of a real estate RFP. Motion by Mr. Cohen, seconded by Ms. Bedford.

The Chairman noted that anyone interested in serving on the real estate RFP evaluation committee should notify Dr. Peck.

7. Audit Committee Report

Mr. Stuller reported on the April 8, 2010 Audit Committee meeting.

Mr. Stuller first stated that Mr. Schroder had proposed the use of mandatory direct deposit for all retirees. ERS would like to address the 3% of retirees who do not utilize direct deposit, which totals about 200 paper checks monthly at a cost of over \$10,000 a year. Mr. Schroeder had proposed working with these retirees and ultimately suggesting a rule to the full Board to require all retirees to receive their pension payments through direct deposit. Mr. Schroder indicated that ERS could work with local banks to get savings debit cards if needed. In response to a question from the Chairman, Mr. Schroeder stated that for those retirees who live out of state, ERS could include a national bank.

Mr. Stuller reported that the Audit Committee next discussed the location for the monthly Pension Board meetings. The Audit Committee explored other locations such as the Zoofari building and continues to research this issue. Mr. Schroeder noted that ERS will prepare a comparison chart for the next Audit Committee meeting showing costs of Zoofari and possibly other accommodations.

Mr. Cohen suggested not moving Pension Board meetings to Wilson Park or Gordon Park because of the poor sound quality at those locations. Ms. Bedford and Ms. Mayr agreed. The Chairman noted that the current location seems to work well and parking is convenient for visitors. Mr. Loeffel added that he has no problem with the current location.

Mr. Stuller next reported that the Audit Committee discussed a potential loss of pension issue. Mr. Stuller indicated that a proposal may be presented to the Pension Board at a future meeting.

Mr. Huff indicated that two topics will be covered in closed session.

Mr. Stuller stated that one topic involved whether members would be allowed to change beneficiaries after selecting retirement options one or six. Mr. Schroeder noted that allowing retirees who choose options one or six to change beneficiaries would have no fiscal impact on ERS.

Mr. Stuller stated that the final Audit Committee topic involved receipt of waivers. In sum, the Audit Committee believes that it is not ERS's role to demand receipt of waivers. Mr. Grady's view was that enforcement of the waivers is the responsibility of the County Executive's Office, not ERS. The Chairman noted that enforcement of the waivers is an executive policy function.

8. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee and Investment Committee agendas.

The Chairman suggested taking action on the National Association of Public Pension Attorneys, Annual Legal Conference. Ms. Mayr opined that attendance at the conference should be a budget item for Corporation Counsel.

The Pension Board unanimously approved the attendance of Mr. Grady at the Annual Legal conference of the National Association of Public Pension Attorneys on June 22-25, 2010 in Asheville, North Carolina. Motion by Dr. Peck, seconded by Mr. Cohen.

The Pension Board unanimously approved the attendance of any interested Pension Board member at the Adams Street Partners Client Conference on June 9-10, 2010 in Chicago, Illinois. Motion by Ms. Bedford, seconded by Mr. Stuller.

The Pension Board unanimously approved the attendance of any interested member at the UNC, Kenan-Flagler Business School, 16th Annual Mid-Sized Retirement & Pension Plan Management Conference on May 4-7, 2010 in Boston, Massachusetts. Motion by Dr. Peck, seconded by Mr. Cohen.

9. Disability Matters

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(f), with regard to item 9 for considering the financial, medical, social or personal histories of specific persons which, if discussed in public, would be likely to have a substantial adverse effect upon the reputation of any person referred to in such histories and that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 9, 11, 12 and 13 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation.

Ms. Bedford also moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(e), with regard to item 10

for considering the investing of public funds, or conducting other specified public business, whenever competitive or bargaining reasons require a closed session. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board voted by roll call vote 8-0, to enter into closed session to discuss agenda items 9, 10, 11, 12 and 13 . Motion by Ms. Bedford, seconded by Mr. Cohen.

(a) Applications – Mary Easterling, ADR

Upon returning to open session, the Pension Board discussed Mary Easterling's accidental disability pension. The Medical Board report concluded that Ms. Easterling's medical issue is unrelated to a specific service-related injury. Thus, the Medical Board recommended that the Pension Board deny Ms. Easterling's accidental disability pension application.

Mr. Stuller asked if there is any background information that suggests whether Ms. Easterling can perform other County employment and if the County has stopped trying to place her in another job. Ms. Bedford stated that Ms. Easterling has been out of work for seven years. She indicated the Medical Board stated Ms. Easterling's condition is not related to an accident at the County.

In open session, the Pension Board unanimously approved accepting the Medical Board's recommendation to deny an accidental disability pension application. Motion by Mr. Cohen, seconded by Ms. Mayr.

10. Selection of Passive Core Fixed Income and Passive U.S. Large Cap Equity (S&P 500) Fund Manager(s)

In open session, the Pension Board discussed whether to transfer the passive core fixed income and passive U.S. large cap equity index funds from BNYM to Northern Trust.

In open session, the Pension Board unanimously approved the transfer of the passive core fixed income and passive U.S. large cap equity index funds from BNYM to Northern Trust with transition fees not exceeding an amount acceptable to the Pension Board. Motion by Ms. Bedford, seconded by Dr. Peck.

11. Pending Litigation

(a) Mark Ryan, et al. v. Pension Bd.

The Pension Board took no action on this item.

(b) Travelers Casualty v. ERS & Mercer

The Pension Board took no action on this item.

12. Report on Special Investigation

The Pension Board took no action on this item.

13. Report on Compliance Review

The Pension Board took no action on this item.

14. Adjournment

The meeting adjourned at 11:25 a.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board